



Greater Kokstad Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2011

Auditor General South Africa(AGSA)  
Issued 31 August 2011

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## General Information

---

<b>Legal form of entity</b>	Local Municipality	
<b>Members of the Council</b>		
Mayor	01 July 2010 - 30 April 2011 Mr M Sithole After May 2011 Ms NT Jojozi	
<b>Councillors-01 July 2010 - 30 April 2011</b>	Mr MS Kutshwa Ms NE Thabethe Mr WD Bhengu Mr M Mathe Mr N Mavuka Mr JJ Mhlongo Mr P Nocanda Mr FA Rodgers Mr M White Ms NT Jojozi	Speaker Deputy Mayor Executive committee member
<b>Councillors-01 May 2011 - Current</b>	Mr ZA Mhlongo Mr BM Mtolo Mr FA Rodgers Mr PX Xelitole Mr TM Mohlakoana Mr LJ Sithole Mr MM Nondabula Ms TO Madikizela Ms NT Mqikela Mr NC Nyembezi Mr JL Kotting Ms V Ncukana Mr N Mavuka Mr P Nocanda Ms MN Dlakavu	Speaker Deputy Mayor Executive committee member
<b>Grading of local authority</b>	Level 7	
<b>Accounting Officer</b>	Mr MA Nkosi	
<b>Chief Finance Officer (CFO)</b>	Mr L. Ndzelu	
<b>Registered office</b>	75 Hope Street Kokstad 4700	
<b>Postal address</b>	P O Box 08 Kokstad 4700	
<b>Auditors</b>	Auditor General South Africa(AGSA)	

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Index

---

Index	Page
Accounting Officer's Responsibilities and Approval	3
Report of the Auditor General	4
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash flow statement	8
Accounting Policies	9 - 21
Notes to the Annual Financial Statements	22 - 48
Appendixes:	
Appendix A: External loans	49
Appendix B: Analysis of Property, plant and equipment	50
Appendix E: Statement of comparative and actual information	51

## Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

A report of the accounting officer has not been prepared as the municipality is a wholly owned controlled entity of which is incorporated in South Africa.

# **Greater Kokstad Local Municipality**

Annual Financial Statements for the year ended 30 June 2011

## **Accounting Officer's Responsibilities and Approval**

---

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements are prepared on the basis that the municipality is a going concern and that the Greater Kokstad Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on page 1 to 51, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2011 and were signed.

---

**Accounting Officer**  
**Mr MA Nkosi**

## Report of the Auditor General

---

To the council of Greater Kokstad Local Municipality

*Report on the financial statements*

Auditor General South Africa(AGSA)

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
<b>Assets</b>			
Current Assets			
Inventories	7	477,578	346,793
Trade and other receivables from exchange transactions	8&11	29,219,304	26,465,557
Other receivables from non-exchange transactions	9	3,949,122	1,172,400
VAT receivable	10	4,081,272	1,953,275
Prepayments		79,533	345,931
Cash and cash equivalents	12	4,844,697	5,696,528
		<b>42,651,506</b>	<b>35,980,483</b>
Non-Current Assets			
Investment property	2	16,426,700	16,126,000
Property, plant and equipment	3	140,082,464	115,015,237
Intangible assets	4	825,742	877,802
		<b>157,334,906</b>	<b>132,019,039</b>
<b>Total Assets</b>		<b>199,986,412</b>	<b>167,999,522</b>
<b>Liabilities</b>			
Current Liabilities			
Finance lease obligation	14	645,341	707,299
Trade and other payables from exchange transactions	18	28,159,026	24,469,237
Consumer deposits	19	2,862,364	2,782,873
Unspent conditional grants and receipts	15	1,890,863	2,239,269
Provisions	16	5,388,197	627,220
Current borrowings	17	558,036	3,914,898
		<b>39,503,827</b>	<b>34,740,796</b>
Non-Current Liabilities			
Finance lease obligation	14	649,913	431,486
Retirement benefit obligation	5	10,782,151	8,993,954
Provisions	16	-	5,302,000
Borrowings	17	3,520,263	4,078,299
		<b>14,952,327</b>	<b>18,805,739</b>
<b>Total Liabilities</b>		<b>54,456,154</b>	<b>53,546,535</b>
<b>Net Assets</b>		<b>145,530,258</b>	<b>114,452,987</b>
<b>Net Assets</b>			
Revaluation reserve	13	-	5,991,000
Accumulated surplus		145,530,258	108,461,987

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
<b>Revenue</b>			
Property rates	20	52,250,702	49,354,077
Service charges	21	84,000,596	79,931,341
Property rates - penalties imposed and collection charges		458,803	5,265,387
Rental of facilities and equipment		875,464	635,208
Public contributions and donations		2,067,340	-
Fines		742,976	4,128,637
Licences and permits		4,023,111	773,225
Government grants & subsidies	22	64,671,158	48,707,285
Recoveries		116,014	-
Interest received - other		-	666
Interest received - Investments		1,070,185	439,448
<b>Total Revenue</b>		<b>210,276,349</b>	<b>189,235,274</b>
<b>Expenditure</b>			
Personnel	24	(62,923,878)	(57,007,069)
Remuneration of councillors	25	(3,198,403)	(2,951,662)
Depreciation and amortisation	27	(8,789,898)	(3,865,444)
Finance costs	28	(1,247,831)	(1,417,726)
Debts written off	26	(6,506,544)	(18,393,953)
Collection costs		(1,666,635)	(660,053)
Repairs and maintenance		(2,370,057)	(582,173)
Bulk purchases	30	(41,944,351)	(33,586,326)
Grants and subsidies paid	29	-	(40,000)
General Expenses	23	(58,575,947)	(59,672,709)
<b>Total Expenditure</b>		<b>(187,223,544)</b>	<b>(178,177,115)</b>
Gain on disposal of assets and liabilities		593,607	565,694
<b>Surplus for the year</b>		<b>23,646,412</b>	<b>11,623,853</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
<b>Balance at 01 July 2009</b>	<b>5,991,000</b>	<b>90,349,838</b>	<b>96,340,838</b>
Changes in net assets			
Prior period adjustments	-	2,632,660	2,632,660
Audit Adjustments	-	3,855,636	3,855,636
Net income (losses) recognised directly in net assets	-	6,488,296	6,488,296
Profit for the year	-	11,623,853	11,623,853
Total recognised income and expenses for the year	-	18,112,149	18,112,149
Total changes	-	18,112,149	18,112,149
<b>Balance at 01 July 2010</b>	<b>5,991,000</b>	<b>108,461,987</b>	<b>114,452,987</b>
Changes in net assets			
• Prior year adjustments	(5,991,000)	-	(5,991,000)
• Transfers to accumulated surplus	-	13,421,855	13,421,855
Net income (losses) recognised directly in net assets	(5,991,000)	13,421,855	7,430,855
Surplus for the year	-	23,646,416	23,646,416
Total recognised income and expenses for the year	(5,991,000)	37,068,271	31,077,271
Total changes	(5,991,000)	37,068,271	31,077,271
<b>Balance at 30 June 2011</b>	<b>-</b>	<b>145,530,258</b>	<b>145,530,258</b>
Note(s)	13		



# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Cash flow statement

Figures in Rand	Note(s)	2011	2010
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Taxation		35,673,552	10,421,292
Sale of goods and services		103,483,347	146,908,248
Grants		64,671,158	48,902,411
Interest income		1,070,185	440,114
Other receipts		2,926,341	32,049,016
		<u>207,824,583</u>	<u>238,721,081</u>
<b>Payments</b>			
Employee costs		(66,122,281)	(59,958,731)
Suppliers		(46,736,678)	(33,586,359)
Finance costs		(1,247,831)	(1,417,726)
Other payments		(60,007,813)	(92,463,098)
		<u>(174,114,603)</u>	<u>(187,425,914)</u>
<b>Net cash flows from operating activities</b>	31	<b><u>33,709,980</u></b>	<b><u>51,295,167</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	3	(31,029,068)	(41,859,110)
Proceeds from sale of property, plant and equipment	3	618,825	682,022
Purchase of investment property	2	(310,000)	-
Purchase of other intangible assets	4	(83,139)	-
<b>Net cash flows from investing activities</b>		<b><u>(30,803,382)</u></b>	<b><u>(41,177,088)</u></b>
<b>Cash flows from financing activities</b>			
Movement in borrowings		(3,914,898)	(3,207,593)
Finance lease payments		156,469	(942,777)
<b>Net cash flows from financing activities</b>		<b><u>(3,758,429)</u></b>	<b><u>(4,150,370)</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b><u>(851,831)</u></b>	<b><u>5,967,709</u></b>
Cash and cash equivalents at the beginning of the year		5,696,528	(271,181)
<b>Cash and cash equivalents at the end of the year</b>	12	<b><u>4,844,697</u></b>	<b><u>5,696,528</u></b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board in accordance with the Municipal Finance Management Act (Act 56 of 2003). These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

These standards are summarised as follows:

GRAP 1 Presentation of Financial Statements  
GRAP 2 Cash Flow Statement  
GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors  
GRAP 4 The Effects of Changes in Foreign Exchange Rates  
GRAP 5 Borrowing Costs  
GRAP 6 Consolidated and Separate Financial Statements  
GRAP 7 Investments in Associates  
GRAP 8 Investments in Joint Ventures  
GRAP 9 Revenue from Exchange Transactions  
GRAP 10 Financial Reporting in Hyperinflationary Economies  
GRAP 11 Construction Contracts  
GRAP 12 Inventories  
GRAP 13 Leases  
GRAP 14 Events After the Reporting Date  
GRAP 16 Investment Properties  
GRAP 17 Property, Plant and Equipment  
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets  
GRAP 100 Non-current Assets Held for Sale and Discontinued Operations  
GRAP 101 Agriculture  
GRAP 102 Intangible Assets

Accounting policies for material transaction, events or conditions not covered by the above GRAP Standards have been developed in accordance with paragraph 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the Generally Recognised Accounting Practices (GRAP) including any interpretations of such Statements issued by the Accounting Practices Board.

The Accounting Standards Board has set transitional provisions for individual standards of GRAP as set out in Directive 4 issued in March 2009. Details of the transitional provisions applicable to the municipality have been provided in the notes to the annual financial statements.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

These accounting policies are consistent with the previous period.

#### 1.1 Presentation of currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. The figures to the annual financial statements are rounded to the nearest rand.

#### 1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

##### Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

### 1.2 Significant judgements and sources of estimation uncertainty (continued)

impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### Standards, amendments to standards and interpretations issued but not yet effective

The following GRAP standards have been issued but not yet effective and have not been adopted by municipality:

GRAP 18 Segment Reporting

GRAP 25 Employee Benefits

GRAP 104 Financial Instruments

### 1.3 Going concern assumption

These annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

### 1.4 Property, plant and equipment

#### 1.4.1 Initial recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment. Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired. Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

#### 1.4.2 Subsequent Measurement - Cost Model

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

#### 1.4.3 Depreciation and Impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to the uncertainty regarding their estimated useful life.

The annual depreciation rates are based on the following estimated average asset lives:

<b>Building</b>	25 years	<b>Other</b>	
		Buildings	25 years
<b>Infrastructure</b>		Emergency equipment	5 years
Roads and Paving	20 years	Motor vehicles	5-7 years
Bridges	30 years	Office equipment	5 years
Storm water	15 years	Furniture and fittings	5 years
Gravel	20 years	Bins and containers	5 years
Substations and Transformers	40 years	Plant and equipment	5-7 years
Poles, Cables and Lights	15-25 years	Other	5 years

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

### 1.4 Property, plant and equipment (continued)

Robots	10 years	Landfill sites	15 years
<b>Community</b>		Computer equipment	3-5 years
Buildings	25 years		
Recreational Facilities	5 years		
Security system	5 years		
Dams	5-15 years		
Libraries	15-20 years		
Parks and gardens	15 years		
Cemeteries	15-20 years		
Community centr	5-20 years		

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

All assets are considered to have a residual value

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Greater Kokstad Local Municipality has taken advantage of the transitional provisions permitted by the Accounting Standards Boards, in terms of Directive 4 issued in March 2009, with respect to the measurement of property, plant and equipment as set out in paragraph 73 to 83.

#### 1.4.4 Derecognition

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance. The residual value and the useful life of each asset are reviewed at the end of each reporting date. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The depreciation method applied to an asset is reviewed at each reporting date. The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

#### Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 3. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where property, plant and equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant and equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 3.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

### 1.4 Property, plant and equipment (continued)

GRAP 1	Presentation of Financial Statements - paragraph 7-8A
GRAP 9	Revenue from exchange transactions - paragraph 37-38
GRAP 13	Leases - paragraphs 55-60
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment - paragraphs 73-83
GRAP 19	Provisions, Contingent Assets
GRAP 102	Intangible Assets - paragraph 110-118

Due to the impact of Directive 4 being adopted and the core criteria of all assets being exempt for measurement, for and including the next two financial years impairment and depreciation assessments will not be considered.

### 1.5 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

#### 1.5.1 Initial recognition

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licenses, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably. Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset's given up.

#### 1.5.2 Subsequent measurement - cost model

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test. Residual value of intangible assets is estimated to be zero.

#### 1.5.3 Amortisation and impairment

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software	3-5 years
-------------------	-----------

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance. The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

### 1.5 Intangible assets (continued)

amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

#### Transitional provision

The municipality changed its accounting policy for intangible assets in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

The Municipality has taken advantage of the transitional provisions permitted by the Accounting Standards Board, as set out in Directive 4 issued in March 2009 as follows :

GRAP 1	Presentation of Financial Statements - paragraph 7-8A
GRAP 9	Revenue from exchange transactions - paragraph 37-38
GRAP 13	Leases - paragraphs 55-60
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment - paragraphs 73-83
GRAP 19	Provisions, Contingent Assets
GRAP 102	Intangible Assets - paragraph 110-118

Due to the impact of Directive 4 being adopted, and the core criteria of all intangible assets being exempt for measurement for and including the next three financial years, amortisation assessments will not be considered.

### 1.6 Investment property

#### 1.6.1 Initial recognition

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is the cost at date of completion.

#### 1.6.2 Subsequent measurement - cost model

Investment property is measured using the cost model and a revaluation will be performed once every five years. Under the cost model, investment property is carried at its depreciated revalued amount less impairments at the reporting date. Any gain or loss arising from the revaluation is included in revaluation reserve.

The municipality changed its accounting policy for investment property in 2010.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

#### Transitional provision

The municipality changed its accounting policy for investment property in 2011. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. Investment property has accordingly been recognised at provisional amounts, as disclosed in 2. The transitional provision expires on 30 June 2012.

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where investment property was acquired through a transfer of functions, the municipality is not required to measure that investment property for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2011 and investment property has accordingly been

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

### 1.6 Investment property (continued)

recognised at provisional amounts, as disclosed in 2.

Until such time as the measurement period expires and investment property is recognised and measured in accordance with the requirements of the Standard of GRAP on Investment property, the municipality need not comply with the Standards of GRAP on:

GRAP 1	Presentation of Financial Statements - paragraph 7-8A
GRAP 9	Revenue from exchange transactions - paragraph 37-38
GRAP 13	Leases - paragraphs 55-60
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment - paragraphs 73-83
GRAP 19	Provisions, Contingent Assets
GRAP 102	Intangible Assets - paragraph 110-118

The exemption from applying the measurement requirements of the Standard of GRAP on Investment property implies that any associated presentation and disclosure requirements need not be complied with for investment property not measured in accordance with the requirements of the Standard of GRAP on Investment property.

### 1.7 Non-current assets held for sale and disposal groups

#### 1.7.1 Initial recognition

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

#### 1.7.2 Subsequent measurement

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

### 1.8 Financial instruments

#### Classification

The Municipality has types of financial instruments and these can be broadly categorised as either Financial Assets or Financial liabilities.

#### 1.8.1 Initial recognition

Financial instruments are initially recognised at fair value.

#### 1.8.2 Subsequent measurement

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held to maturity, loans and receivables, or available for sale. Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

##### 1.8.2.1 Investments

Investments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as fair value and classified under cash and cash equivalents and are measured at amortised cost. Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

### 1.8 Financial instruments (continued)

instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

Gains and Losses arising from changes in fair values are included in profit and loss for the period.

#### 1.8.2.2 Trade and other receivables

Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

#### 1.8.2.3 Trade and other payables from exchange transactions

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

#### Borrowings and other financial liabilities

Borrowings are recognised initially at fair value, net transaction costs incurred. Borrowings are subsequently stated at amortised cost. Long-term borrowings are non-derivative financial loans and the Municipality does not hold financial loans for trading purposes. Long term borrowings are utilised. Other financial liabilities are carried at amortised cost.

#### 1.8.2.4 Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables. Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

### 1.9 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state.

#### 1.10 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000).

#### 1.11 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance.

#### 1.12 Provisions and contingencies

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount



# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

### 1.12 Provisions and contingencies (continued)

rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

(a) The municipality has a detailed formal plan for the restructuring identifying at least:

- the business or part of a business concerned;
- the principal locations affected;
- the location, function, and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken; and
- when the plan will be implemented; and

(b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

### 1.13 Leases

#### 1. The Municipality as Lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments.

The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum

lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are accrued on a straight-line basis over the term of the relevant lease.

The municipality changed its accounting policy for leases in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

The Municipality has taken advantage of the transitional provisions permitted by the Accounting Standards Board, as set out in Directive 4 issued in March 2009 as follows :

GRAP 1	Presentation of Financial Statements - paragraph 7-8A
GRAP 9	Revenue from exchange transactions - paragraph 37-38
GRAP 13	Leases - paragraphs 55-60
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment - paragraphs 73-83
GRAP 19	Provisions, Contingent Assets
GRAP 102	Intangible Assets - paragraph 110-118

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where leasehold asset

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

### 1.13 Leases (continued)

was acquired through a transfer of functions, the municipality is not required to measure that leasehold asset for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The transitional provision expires on 30 June 2012.

Due to the impact of Directive 4 being adopted and the core criteria of all assets being exempt for measurement, for and including the next three financial years impairment and depreciation assessments will not be considered.

### 2. The Municipality as Lessor

Under a finance lease, the municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease installments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

#### Operating leases - lessee

Payments made under operating leases are charged to the statement of financial position on a straight line basis over the period of the lease.

#### Operating leases - lessor

Assets leased to third parties under operating lease are included in investment property in the Statement of Financial Position. The assets are depreciated over their expected useful lives on a basis consistent with similar owned investment property. Rental income is recognised over the lease term.

### 1.14 Revenue from exchange transactions

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licenses and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods is passed to the consumer.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

### 1.15 Revenue from non-exchange transactions

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Fines constitute both spot fines and summons. Revenue from spot fines and summons is recognised when payment is received. There's uncertainty regarding full recoverability of outstanding fines and summons. Spot fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect to summon, the Public Prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a deferred income (liability) is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible Councilors or officials is virtually certain.

### Grants, transfer and donations

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised .

Interest and on the investment is treated in accordance with grant conditions. If it is payable to the funder, it is recorded as part of the creditor. If it is Municipality's interest, it is recognised as income in the Statement of Financial Performance.

Donations are recognised on a cash receipt basis or where the donation is in the form of Property, Plant and Equipment, at the fair value of the consideration received or the receivable.

### 1.16 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

### 1.17 Employee benefits

#### Defined contribution plans

The municipality provides retirement benefits for its employees and councillors. Contributions are made to South African Local Authority Pension Fund and to the Contribution to the South African Local Authority Pension Fund (SALA) and made as follows:

Members-8.6%

Council-20.78%

Contribution to the Natal Joint Provided Fund (NJPF) and are made as follows:

Provident 1.-1 Member-5% Council-13.65%

Provident 2.-2 Member-7% Council-18%

Provident 2.-3 Member-79.25% Council-18%

Retirement

60 Members

Council- 29%

Superannuation

56 Members

Member- 9.25%

Council-25%

Councillors-28.75%

10 Members

Member- 13.75%

Member-15%

#### Medical Aid Continued

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

The Municipality provides post- retirement benefits by subsidising the medical aid contributions of certain retired staff. According to the rules of the medical aid funds

### 1.18 Impairment of assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

### 1.18 Impairment of assets (continued)

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

The municipality changed its accounting policy for property, plant & equipment in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

The Municipality has taken advantage of the transitional provisions permitted by the Accounting Standards Board, as set out in Directive 4 issued in March 2009 as follows :

GRAP 1	Presentation of Financial Statements - paragraph 7-8A
GRAP 9	Revenue from exchange transactions - paragraph 37-38
GRAP 13	Leases - paragraphs 55-60
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment - paragraphs 73-83
GRAP 19	Provisions, Contingent Assets
GRAP 102	Intangible Assets - paragraph 110-118

### 1.19 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

---

### 1.20 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

### 1.21 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

### 1.22 Transitional Provisions

Greater Kokstad Local Municipality has taken advantage of the transitional provisions permitted by the Accounting Standards Board, as set out in Directive 4 issued in March 2009 as follows:

GRAP 1 Presentation of Financial Statements - paragraphs 7-8A  
GRAP 9 Revenue from Exchange Transactions - paragraphs 37-38  
GRAP 12 Inventories - paragraphs 45-52  
GRAP 13 Leases - paragraphs 55-60  
GRAP 16 Investment property - paragraphs 63-70  
GRAP 17 Property, Plant and Equipment - paragraphs 73-83  
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets - paragraph 93-94E  
GRAP 102 Intangible Assets - paragraph 110-118)

### 1.23 VAT

The Municipality accounts for Value Added Tax on the payments basis. This means that VAT is declared to the South African Revenue Services as input VAT or output VAT only when payments are made to suppliers or payments are received for goods or services. The net output VAT on debtors where money has not been received or creditors where payment has not yet been made is disclosed separately in the Statement of Financial Position in terms of GRAP 1.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
-----------------	------	------

### 2. Investment property

	2011			2010		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	16,436,000	(9,300)	16,426,700	16,126,000	-	16,126,000

#### Reconciliation of investment property - 2011

	Opening balance	Additions	Depreciation	Total
Investment property	16,126,000	310,000	(9,300)	16,426,700

#### Reconciliation of investment property - 2010

	Opening balance	Total
Investment property	16,126,000	16,126,000

### Transitional provisions

#### Investment property recognised at provisional amounts

The municipality changed its accounting policy for investment property in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

The Municipality has taken advantage of the transitional provisions permitted by the Accounting Standards Board, as set out in Directive 4 issued in March 2009 as follows :

GRAP 1	Presentation of Financial Statements - paragraph 7-8A
GRAP 9	Revenue from exchange transactions - paragraph 37-38
GRAP 13	Leases - paragraphs 55-60
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment - paragraphs 73-83
GRAP 19	Provisions, Contingent Assets
GRAP 102	Intangible Assets - paragraph 110-118

Due to the impact of Directive 4 being adopted and the core criteria of all assets being exempt for measurement, for and including the next three financial years impairment and depreciation assessments will not be considered.

Investment property with a carrying value of 2011 R 16 426 700(2010 R 16 126 000) was recognised at provisional amounts.

The steps taken to establish the values of investment property recognised at provisional amounts due to the initial adoption of GRAP 16, is as follows:

The Municipality is in the process of appointing suitably qualified consultants to perform a complete valuation of all investment property during the next financial year. A detailed analysis of the impairment and amortisation will be performed over the exemption period.

The date at which full compliance with GRAP 16 is expected, is 30 June 2012.

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand

2011

2010

### 3. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Land and Buildings	62,207,329	(32,545,062)	29,662,267	59,347,416	(32,138,573)	27,208,843
Leasehold property	6,592,001	(5,865,625)	726,376	7,603,611	(7,603,611)	-
Infrastructure	266,274,836	(186,640,763)	79,634,073	258,728,669	(179,949,288)	78,779,381
Community	20,922,620	(17,949,875)	2,972,745	20,416,412	(17,808,993)	2,607,419
Other property, plant and equipment	15,820,291	(7,189,122)	8,631,169	15,538,910	(10,314,316)	5,224,594
Capital work in progress	17,260,834	-	17,260,834	-	-	-
Heritage	1,195,000	-	1,195,000	1,195,000	-	1,195,000
<b>Total</b>	<b>390,272,911</b>	<b>(250,190,447)</b>	<b>140,082,464</b>	<b>362,830,018</b>	<b>(247,814,781)</b>	<b>115,015,237</b>

#### Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	27,208,843	2,869,213	-	-	(415,789)	29,662,267
Leasehold property	-	726,376	-	-	-	726,376
Infrastructure	78,779,381	7,547,703	-	-	(6,693,011)	79,634,073
Community	2,607,419	506,207	-	-	(140,881)	2,972,745
Other property, plant and equipment	5,224,594	2,118,735	(25,218)	2,633,711	(1,320,653)	8,631,169
Capital work in progress	-	17,260,834	-	-	-	17,260,834
Heritage	1,195,000	-	-	-	-	1,195,000
	<b>115,015,237</b>	<b>31,029,068</b>	<b>(25,218)</b>	<b>2,633,711</b>	<b>(8,570,334)</b>	<b>140,082,464</b>

#### Reconciliation of property, plant and equipment - 2010

	Opening balance	Correction of error	Additions	Disposals	Depreciation	Total
Land	(10,135,000)	27,676,356	10,394,731	(484,700)	(242,544)	27,208,843
Leasehold property	2,003,251	(1,116,493)	-	-	(886,758)	-
Infrastructure	13,934,227	49,532,034	16,217,838	-	(904,718)	78,779,381
Community	-	(63,391)	2,775,230	-	(104,420)	2,607,419
Other property, plant and equipment	1,754,148	2,603,348	2,824,190	(197,322)	(1,759,770)	5,224,594
Heritage	-	1,195,000	-	-	-	1,195,000
	<b>7,556,626</b>	<b>79,826,854</b>	<b>32,211,989</b>	<b>(682,022)</b>	<b>(3,898,210)</b>	<b>115,015,237</b>

#### Assets subject to finance lease (Net carrying amount)

Leasehold property	726,376	-
--------------------	---------	---

#### Transitional provisions

Additional text

#### Property, plant and equipment recognised at provisional amounts

The municipality changed its accounting policy for property, plant & equipment in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

The Municipality has taken advantage of the transitional provisions permitted by the Accounting Standards Board, as set out in Directive 4 issued in March 2009 as follows :



# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
-----------------	------	------

### 3. Property, plant and equipment (continued)

GRAP 1	Presentation of Financial Statements - paragraph 7-8A
GRAP 9	Revenue from exchange transactions - paragraph 37-38
GRAP 13	Leases - paragraphs 55-60
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment - paragraphs 73-83
GRAP 19	Provisions, Contingent Assets
GRAP 102	Intangible Assets - paragraph 110-118

Due to the impact of Directive 4 being adopted and the core criteria of all assets being exempt for measurement, for and including the next three financial years impairment, fair value, componentisation, residual values and depreciation assessments will not be considered.

Property, plant and equipment with a carrying value of 2011 R 140 082 464 (2010: R 119 982 237) was recognised at provisional amounts.

The steps taken to establish the values of property, plant and equipment recognised at provisional amounts due to the initial adoption of GRAP 17, is as follows:

The Municipality is in the process of appointing suitably qualified consultants to perform a complete valuation of all assets during the next financial year. A detailed analysis of the fair value, residual value, componentisation, amortisation and impairment and will be performed over the exemption period.

The date at which full compliance with GRAP 17 is expected, is 30 June 2012.

### 4. Intangible assets

	2011			2010		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software, other	1,598,556	(772,814)	825,742	948,846	(71,044)	877,802

#### Reconciliation of intangible assets - 2011

	Opening balance	Additions	Other changes, movements	Amortisation	Total
Computer software, other	877,802	83,139	75,063	(210,262)	825,742

#### Reconciliation of intangible assets - 2010

	Opening balance	Amortisation	Total
Computer software, other	948,846	(71,044)	877,802

#### Transitional provisions

##### Intangible assets recognised at provisional amounts

The municipality changed its accounting policy for intangible assets in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

The Municipality has taken advantage of the transitional provisions permitted by the Accounting Standards Board, as set out in Directive 4 issued in March 2009 as follows :

GRAP 1	Presentation of Financial Statements - paragraph 7-8A
GRAP 9	Revenue from exchange transactions - paragraph 37-38
GRAP 13	Leases - paragraphs 55-60

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
-----------------	------	------

### 4. Intangible assets (continued)

GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment - paragraphs 73-83
GRAP 19	Provisions, Contingent Assets
GRAP 102	Intangible Assets - paragraph 110-118

Due to the impact of Directive 4 being adopted and the core criteria of all assets being exempt for measurement, for and including the next three financial years impairment and depreciation assessments will not be considered.

Intangible assets with a carrying value of 2011: R 825 742 (2010:R 877 802 ) was recognised at provisional amounts.

The steps taken to establish the values of intangible assets recognised at provisional amounts due to the initial adoption of GRAP 102, is as follows:

The Municipality is in the process of appointing suitably qualified consultants to perform a complete valuation of all intangible assets during the next financial year. A detailed analysis of the impairment and amortisation will be performed over the exemption period.

The date at which full compliance with GRAP 102 is expected, is 30 June 2012.

### 5. Retirement benefits

#### Movements for the year

##### Carrying Value

Opening Balance	(8,993,954)	-
Net actuarial gains or losses not recognized	(974,412)	-
Current Service Cost	(386,656)	-
Interest Cost	(808,283)	-
Contributions	381,154	-
Past service cost not recognised	-	(8,993,954)
	<b>(10,782,151)</b>	<b>(8,993,954)</b>

#### Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

##### Long Service Awards

Opening Balance	(1,755,696)	-
Net actuarial gains or losses not recognized	(156,672)	-
Current Service Cost	(153,008)	-
Interest Cost	(154,411)	-
Contributions	116,014	-
	<b>(2,103,773)</b>	<b>-</b>

##### Post Employment Health Care Benefits

Present Value of the Defined Benefit Obligation - Wholly Unfunded	(7,238,258)	-
Net actuarial gains or losses not recognized	(817,740)	-
Current Service Cost	(233,648)	-
Interest Cost	(653,872)	-
Contributions	265,140	-
	<b>(8,678,378)</b>	<b>-</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand

2011

2010

### 6. Actuarial Report

#### PeHCL report

Table 5.1: Key financial assumptions

Assumption	Value p.a.
Discount rate	8.60%
Health care cost inflation rate	7.29%
Net effective discount rate	1.23%

Table 5.2: Key demographic assumptions

Assumption	Value		
Average retirement age	63 for males; 58 for females		
Continuation of membership at retirement	100%		
Proportion assumed married at retirement	90%		
Proportion of eligible current non-member employees joining the scheme by retirement	30%		
Mortality during employment	SA 85-90		
Mortality post-retirement	PA90-1		
Withdrawal from service (sample annual rates)	<b>Age</b>	<b>Females</b>	<b>Males</b>
	20	24%	16%
	30	15%	10%
	40	6%	6%
	50	2%	2%
	>55	0%	0%

Table 6.1: Accrued Liability (R millions)

Category	30/06/2010	30/06/2011
	3.027	3.812
<b>In-service members</b>		
	0.449	0.472
<b>In-service non-members</b>		
<b>Total In-service</b>	<b>3.476</b>	<b>4.284</b>
<b>Continuation members</b>	<b>3.762</b>	<b>4.395</b>
<b>All members</b>		
Total liability	7.238	8.678
Value of assets	0.000	0.000
<b>Unfunded liability</b>	<b>7.238</b>	<b>8.678</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand

2011

2010

### 6. Actuarial Report (continued)

Table 6.2: Current-service and Interest Costs (Rands)

Category of Member	Year ending 30/06/2011	Year ending 30/06/2012
<b>In-service Employees</b>		
Current-service Cost	341,700	258,100
<b>All Eligible Individuals</b>		
Interest Cost	1,203,200	734,200

Table 6.7 Actuarial Gains and Losses

<b>Actuarial (Gain)/Loss for the period</b>	<b>817,740</b>
Contribution to Actuarial (Gain)/Loss:	
Basis changes: decrease in net discount rate	771,141
Contribution increases higher than assumed	333,601
Changes to membership profile different from assumed	(287,002)

Table 6.8 History of liabilities and assets (R millions)

	30/06/2010	30/06/2011
<i>Present value of accrued liability</i>	7.238	8.678
<b>Fair value of plan asset</b>	0.000	0.000
<b>Surplus / (deficit)</b>	(7.238)	(8.678)

Table 6.9: History of experience adjustments: Gains and losses (R millions)

<i>Experience adjustments</i>	Year ending 30/06/2011
<b>Liabilities: (Gain) / loss</b>	0.047
<b>Assets: Gain / (loss)</b>	0.000

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand

2011

2010

### 6. Actuarial Report (continued)

Table 7.1: Sensitivity Analysis on the Accrued Liability (R Millions)

Assumption	Change	In-service	Continuation	Total	% change
<b>Central Assumptions</b>		4.284	4.395	8.678	
<b>Health care inflation</b>	1%	5.125	4.938	10.063	16%
	-1%	3.613	3.936	7.549	-13%
<b>Post-retirement mortality</b>	-1 yr	4.426	4.554	8.980	3%
<b>Average retirement age</b>	-1 yr	4.575	4.395	8.970	3%
<b>Withdrawal Rate</b>	-50%	4.608	4.395	9.003	4%

Table 7.2: Sensitivity Analysis on the Current-service and Interest Costs for the year ending 30/06/2011

Assumption	Change	Current-service Cost	Interest Cost	Total	% change
<b>Central Assumptions</b>		341,700	1,203,200	1,544,900	
<b>Health care inflation</b>	+1%	428,300	1,392,900	1,821,200	18%
	-1%	275,700	1,049,800	1,325,500	-14%
<b>Post-retirement mortality</b>	-1 yr	352,100	1,246,300	1,598,400	3%
<b>Average retirement age</b>	-1 yr	327,700	1,233,400	1,561,100	1%
<b>Withdrawal Rate</b>	-50%	400,000	1,266,800	1,666,800	8%

Table 7.3: Sensitivity Analysis on the Current-service and Interest Costs for the year ending 30/06/2012

Assumption	Change	Current-service Cost	Interest Cost	Total	% change
<b>Central Assumptions</b>		258,100	734,200	992,300	
<b>Health care inflation</b>	+1%	317,700	853,300	1,171,000	18%
	-1%	211,500	637,000	848,500	-14%
<b>Post-retirement mortality</b>	-1 yr	266,200	760,100	1,026,300	3%
<b>Average retirement age</b>	-1 yr	283,700	759,200	1,042,900	5%
<b>Withdrawal Rate</b>	-50%	292,300	762,000	1,054,300	6%

Table A4.1: Withdrawal rates

Age	Females	Males
20	24%	16%
25	18%	12%
30	15%	10%
35	10%	8%
40	6%	6%
45	4%	4%
50	2%	2%
> 55	0%	0%

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand

2011

2010

### 6. Actuarial Report (continued)

Table A5.1 Past year and future projected Liability

	Year ending 30/06/2011	Year ending 30/06/2012	Year ending 30/06/2013
<i>Opening Accrued Liability</i>	<b>7,238,258</b>	<b>8,678,378</b>	<b>9,373,219</b>
Current-service Cost	233,648	258,077	280,282
Interest Cost	653,872	734,160	793,031
Contributions (benefits paid)	(265,140)	(297,396)	(319,065)
<b>Total Annual Expense</b>	<b>622,380</b>	<b>694,841</b>	<b>754,248</b>
Actuarial Loss / (Gain)	817,740		
<b>Closing Accrued Liability</b>	<b>8,678,378</b>	<b>9,373,219</b>	<b>10,127,467</b>

Table A5.2 Balance Sheet Figures

Balance Sheet	Year ending 30/06/2011	Year ending 30/06/2012
Fair Value of Plan Assets	-	-
Accrued Liability	8,678,378	9,373,219
<b>Unfunded Accrued Liability</b>	<b>8,678,378</b>	<b>9,373,219</b>
Unrecognised Transitional Liability	-	-
Unrecognised Actuarial Gains/(Losses)	-	-
Unrecognised Past Service Cost	-	-
Miscellaneous Item	-	-
<b>Net Liability in Balance Sheet</b>	<b>8,678,378</b>	<b>9,373,219</b>

Table A5.3 Reconciling and Projecting the Unfunded Accrued Liability

Unfunded Accrued Liability	Year ending 30/06/2011	Year ending 30/06/2012
Opening Balance	7,238,258	8,678,378
Current-service Cost	233,648	258,077
Interest Cost	653,872	734,160
Expected Return on Plan Assets	-	-
<b>Actuarial (Gain)/Loss</b>	<b>817,740</b>	-
Past-service Cost	-	-
Effect of Curtailment/Settlement	-	-
<b>Expected Employer Benefit Payments</b>	<b>(265,140)</b>	<b>(297,396)</b>
Employer Prefunding Contributions	-	-
<b>Closing Balance</b>	<b>8,678,378</b>	<b>9,373,219</b>
<b>Projected Accrued Liability</b>	<b>7,860,638</b>	<b>9,373,219</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand

2011

2010

### 6. Actuarial Report (continued)

Table A5.4 Net Liability to reflect in the Balance Sheet

Net Liability in Balance Sheet	Year ending 30/06/2011	Year ending 30/06/2012
<b>Opening Balance</b>	<b>7,238,258</b>	<b>8,678,378</b>
Current-service Cost	233,648	258,077
Interest Cost	653,872	734,160
Expected Return on Plan Assets	-	-
Transitional Liability Recognised	-	-
Actuarial (Gain)/Loss Recognised in P&L	817,740	-
Past-service Cost Recognised	-	-
Effect of Curtailment/Settlement	-	-
<b>Net Periodic Cost Recognised in P&amp;L</b>	<b>1,705,260</b>	<b>992,237</b>
Expected Employer Benefit Payments	(265,140)	(297,396)
Transitional Liability Recognised	-	-
Employer Prefunding Contributions	-	-
Transitional Liability Recognised outside P&L	-	-
Actuarial (Gain)/Loss Recognised outside P&L	-	-
<b>Closing Balance</b>	<b>8,678,378</b>	<b>9,373,219</b>

### LSA report

Table 5.1: Key financial assumptions

Assumption	Value p.a.
Discount rate	7.78%
General Salary Inflation (long-term)	6.27%
Net effective discount rate	1.42%

Table 5.2: Key demographic assumptions

Assumption	Value		
Average retirement age	63 for males; 58 for females		
Mortality during employment	SA85-90		
Withdrawal from service (sample annual rates)	<b>Age</b>	<b>Rate</b>	
		Female	Male
	20	24%	16%
	30	15%	10%
	40	6%	6%
	50	2%	2%
	55	0%	0%

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand

2011

2010

### 6. Actuarial Report (continued)

Table 6.1: Unfunded Accrued Liability

Greater Kokstad Municipality's LSA	30/06/2010	30/06/2011
<b>Value of Leave Liabilities</b>	1,755,696	2,103,773
Total Value of liabilities	<b>1,755,696</b>	<b>2,103,773</b>
<b>Value of assets</b>	<b>0</b>	<b>0</b>
<b>Unfunded Accrued Liability</b>	<b>1,755,696</b>	<b>2,103,773</b>

Table 6.2: Current-service and Interest Costs

Greater Kokstad Municipality's LSA	Year ending 30/06/2011		Year ending 30/06/2012	
	Current-service Cost	Interest Cost	Current-service Cost	Interest Cost
<b>Total Cost</b>	153,008	154,411	196,336	155,356

Table 6.6 Actuarial Gains and Losses

<b>Actuarial (Gain)/Loss for the period</b>	<b>156,672</b>
Contribution to Actuarial Loss:	
Basis changes: decrease in net discount rate	151,156
Salary increases higher than assumed	14,291
Changes to Membership profile different from assumed	(8,775)

Table 6.7: History of liabilities and assets

	30/06/2010	30/06/2011
<b>Present value of accrued liability</b>	1,755,696	2,103,773
Fair value of plan asset	0	0
<b>Surplus / (deficit)</b>	<b>(1,755,696)</b>	<b>(2,103,773)</b>

Table 6.8: History of experience adjustments: (Gains) and losses

Experience adjustment	Year ending 30/06/2011
Plan liabilities	5,516
<b>Plan assets</b>	<b>0.000</b>



# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand

2011

2010

### 6. Actuarial Report (continued)

Table 7.1: Sensitivity Analysis on the Unfunded Accrued Liability (in R Millions)

Assumption	Change	Liability	% change
<b>Central assumptions</b>		2.104	
<b>General salary inflation</b>	+1%	2.240	6%
	-1%	1.981	-6%
<b>Average retirement age</b>	-2 yrs	1.900	-10%
	+2 yrs	2.298	9%
<b>Withdrawal rates</b>	-50%	2.524	20%

Table 7.2: Sensitivity Analysis on the Current-service and Interest Costs for the year ending 30/06/2011

Assumption	Change	Current-service Cost	Interest Cost	Total	% change
<b>Central assumptions</b>		153,008	154,411	307,419	
<b>General salary inflation</b>	+1%	163,478	164,543	328,021	7%
	-1%	143,662	145,188	288,850	-6%
<b>Average retirement age</b>	-2 yrs	143,500	140,363	283,863	-8%
	+2 yrs	162,297	169,105	331,402	8%
<b>Withdrawal rates</b>	-50%	196,256	185,445	381,701	24%

Table 7.3: Sensitivity Analysis on the Current-service and Interest Costs for the year ending 30/06/2012

Assumption	Change	Current-service Cost	Interest Cost	Total	% change
<b>Central assumptions</b>		196,336	155,356	351,692	
<b>General salary inflation</b>	+1%	209,168	165,895	375,063	7%
	-1%	184,969	145,827	330,796	-6%
<b>Average retirement age</b>	-2 yrs	183,711	139,501	323,212	-8%
	+2 yrs	208,630	170,509	379,139	8%
<b>Withdrawal rates</b>	-50%	247,807	188,082	435,889	24%

Table A2.1: Promotional salary scale

Age band	Additional promotional scale
20 – 25	5.0%
25 – 30	4.0%
30 – 35	3.0%
35 – 40	2.0%
40 – 45	1.0%
45 – 50	0.0%
50 – 55	0.0%
55 – 60	0.0%
60 – 65	0.0%

Table A2.2: Sample withdrawal rates

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>7. Inventories</b>		
Stores, materials and fuels	477,578	346,793
<b>8. Trade and other receivables from exchange transactions</b>		
Trade debtors	25,270,863	24,285,660
Add: Debtors with Credit Balances	3,948,441	2,179,897
	<b>29,219,304</b>	<b>26,465,557</b>
<b>Reconciliation of provision for impairment of trade and other receivables</b>		
Opening balance	(23,276,256)	(36,261,314)
Provision for impairment	-	(1,923,015)
Unused amounts reversed	(1,784,469)	14,908,073
	<b>(25,060,725)</b>	<b>(23,276,256)</b>
<b>9. Other receivables from non-exchange transactions</b>		
Sundry debtors	3,949,122	1,172,400
<b>10. VAT receivable</b>		
VAT	4,081,272	1,953,275
<b>Movement for the year</b>		
Input Vat	39,624,006	-
Output Vat	(35,542,734)	-
	<b>4,081,272</b>	<b>-</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>11. Consumer debtors</b>		
<b>Gross balances</b>		<b>Restated</b>
Rates	17,921,553	25,649,240
Electricity	7,859,821	6,900,516
Refuse	23,626,525	14,026,685
Fire Levy	923,689	985,476
Add: Debtors with Credit Balances	3,948,441	2,179,897
	<b>54,280,029</b>	<b>49,741,814</b>
<b>Less: Provision for debt impairment</b>		
Rates	-	(12,552,444)
Electricity	(7,479,276)	(3,377,033)
Refuse	(16,702,482)	(6,864,499)
Fire Levy	(878,967)	(482,281)
	<b>(25,060,725)</b>	<b>(23,276,257)</b>
<b>Net balance</b>		
Rates	17,921,553	13,096,796
Electricity	1,327,303	4,209,954
Refuse	9,814,463	8,557,576
Fire Levy	155,985	601,231
	<b>29,219,304</b>	<b>26,465,557</b>
<b>Rates</b>		
Current (0 -30 days)	2,342,485	4,077,930
30 Days	730,072	1,389,886
60 Days	510,407	956,128
90 Days	437,950	986,641
+120 Days	13,900,610	18,238,655
	<b>17,921,524</b>	<b>25,649,240</b>
<b>Electricity</b>		
Current (0 -30 days)	2,567,547	4,361,477
30 Days	1,147,483	1,121,599
60 Days	1,054,366	256,144
90 Days	200,379	160,766
+120 Days	3,836,803	1,000,530
	<b>8,806,578</b>	<b>6,900,516</b>
<b>Refuse</b>		
Current (0 -30 days)	1,533,922	216,262
30 Days	1,028,449	875,915
60 Days	4,919,290	727,998
90 Days	840,535	828,911
+120 Days	18,194,750	11,377,599
	<b>26,516,946</b>	<b>14,026,685</b>
<b>Fire Levy</b>		
Current (0 -30 days)	54,249	5,139
30 Days	38,602	52,358

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>11. Consumer debtors (continued)</b>		
60 Days	122,655	47,050
90 Days	35,063	51,793
+120 Days	784,384	829,136
	<b>1,034,953</b>	<b>985,476</b>
<b>Summary of debtors by customer classification</b>		
<b>Consumers</b>		
Current (0 -30 days)	7,627,867	2,344,446
30 Days	3,454,925	1,845,649
60 Days	5,571,559	1,147,212
90 Days	1,214,525	1,244,204
+120 Days	36,411,153	43,160,303
	54,280,029	49,741,814
Less: Provision for debt impairment	(25,060,725)	(23,276,257)
	<b>29,219,304</b>	<b>26,465,557</b>
<b>Industrial/ commercial</b>		
Current (0 -30 days)	1,914,840	5,438,968
30 Days	1,493,632	1,540,003
60 Days	155,008	838,079
90 Days	89,284	781,231
+120 Days	116,374	10,890,940
	3,769,138	19,489,221
Less: Provision for debt impairment	(1,844,573)	(9,537,801)
	<b>1,924,565</b>	<b>9,951,420</b>
<b>National and provincial government</b>		
Current (0 -30 days)	749,101	102,393
30 Days	298,781	56,009
60 Days	148,647	1,329
90 Days	43,003	2,676
+120 Days	30,478	175,841
	1,270,010	338,248
Less: Provision for debt impairment	(621,529)	(165,535)
	<b>648,481</b>	<b>172,713</b>
<b>Reconciliation of debt impairment provision</b>		
Balance at beginning of the year	(23,276,257)	-
Contributions to provision	4,722,075	-
Reversal of provision	(6,506,543)	-
	<b>(25,060,725)</b>	<b>-</b>

### Consumer debtors past due but not impaired

At 30 June 2011, R23,995,774 which relating to rates are not considered to be impaired.

### Consumer debtors impaired

As of 30 June 2011, consumer debtors of R 26,335,815 (2010: R18,393,953) were impaired and provided for.

The amount of the provision was R 16,925,211 as of 30 June 2011 (2010: R 23,276,257).

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
-----------------	------	------

### 12. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	24,821	14,105
Bank balances	1,200,797	2,092,335
Short-term deposits	3,619,079	3,590,088
	<b>4,844,697</b>	<b>5,696,528</b>

### Short term deposits

Account number	Account description	Bank statement balances	
		30 June 2011	30 June 2010
FNB - 620 4994 7825	Reserve Account	61,000	30,000
FNB - 620 6376 4221	Financial Management Grant	-	1,000
FNB - 620 6810 2682	Peoples Housing Project	28,587	32,243
FNB - 620 8937 2868	Municipal Infrastructure Grant	2,000	93,553
FNB - 620 8992 7663	MSIG Project Consolidate	1,000	1,000
FNB - 621 9170 1476	FMG Provincial Treasury	97,989	794,294
FNB - 621 0368 9230	Horse Shoe Housing	1,224,081	1,288,202
FNB - 621 2423 9288	Gijima Account	-	29,963
FNB - 621 9024 8221	House Operating Account	1,517,710	1,319,833
Ned 037 1650 1368 7	Sport and recreation	179,166	-
FNB - 622 9521 8947	LED	505,542	-
FNB - 743 0151 6024	Gkm Properties rental	2,000	-
		<b>3,619,075</b>	<b>3,590,088</b>

### 13. Revaluation reserve

Opening balance	5,991,000	-
Change during the year	(5,991,000)	5,991,000
	<b>-</b>	<b>5,991,000</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>14. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	747,065	707,299
- in second to fifth year inclusive	740,261	597,747
	1,487,326	1,305,046
less: future finance charges	(192,072)	(166,261)
<b>Present value of minimum lease payments</b>	<b>1,295,254</b>	<b>1,138,785</b>
<b>Present value of minimum lease payments due</b>		
- within one year	757,877	613,752
- in second to fifth year inclusive	537,377	525,033
	<b>1,295,254</b>	<b>1,138,785</b>
Non-current liabilities	649,913	431,486
Current liabilities	645,341	707,299
	<b>1,295,254</b>	<b>1,138,785</b>

The municipality changed its accounting policy for leases in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

The Municipality has taken advantage of the transitional provisions permitted by the Accounting Standards Board, as set out in Directive 4 issued in March 2009 as follows :

GRAP 1	Presentation of Financial Statements - paragraph 7-8A
GRAP 9	Revenue from exchange transactions - paragraph 37-38
GRAP 13	Leases - paragraphs 55-60
GRAP 16	Investment Property
GRAP 17	Property, Plant and Equipment - paragraphs 73-83
GRAP 19	Provisions, Contingent Assets
GRAP 102	Intangible Assets - paragraph 110-118

Due to the impact of Directive 4 being adopted and the core criteria of all assets and liabilities being exempt for measurement, for and including the next three financial years impairment and depreciation assessments will not be considered.

Leasehold assets with a carrying value of (2011: R 726 365 ) was recognised at provisional amounts.

The steps taken to establish the values of leasehold assets and leasehold liabilities are recognised at provisional amounts due to the initial adoption of GRAP 13, is as follows:

The Municipality is in the process of appointing suitably qualified consultants to perform a complete valuation of all leased assets and liabilities during the next financial year.

The date at which full compliance with GRAP 13 is expected, is 30 June 2012.

### 15. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises of:**

#### **Unspent conditional grants and receipts from other Spheres of government**

Horseshoe Township	1,224,081	1,288,284
Financial Management Grant	-	795,225
Municipal Infrastructure Grant	-	93,553
Gijima Project	-	29,964
Peoples Housing Project 12 and 13	28,588	32,243
Local Economic development	482,793	-
KZN Arts and Culture	155,400	-

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
-----------------	------	------

### 15. Unspent conditional grants and receipts (continued)

**1,890,862      2,239,269**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

### 16. Provisions

#### Reconciliation of provisions - 2011

	Opening Balance	Additions	Utilised during the year	Total
Provision for landfill site	5,302,000	-	(1,623,730)	3,678,270
Other provisions	627,220	1,726,917	(644,210)	1,709,927
	<b>5,929,220</b>	<b>1,726,917</b>	<b>(2,267,940)</b>	<b>5,388,197</b>

#### Reconciliation of provisions - 2010

	Opening Balance	Additions	Utilised during the year	Total
Provision for landfill site	4,733,544	568,456	-	5,302,000
Other provisions	718,304	627,220	(718,304)	627,220
	<b>5,451,848</b>	<b>1,195,676</b>	<b>(718,304)</b>	<b>5,929,220</b>

Non-current liabilities	-	5,302,000
Current liabilities	5,388,197	627,220
	<b>5,388,197</b>	<b>5,929,220</b>

### 17. Borrowings

Current Borrowings	558,036	3,914,897
Non-Current Borrowings	3,520,263	4,078,299
	<b>4,078,299</b>	<b>7,993,196</b>

### 18. Trade and other payables from exchange transactions

Trade payables	2,111,379	1,795,212
Accrued leave pay	6,194,065	8,729,479
Other Payables	15,905,141	11,764,649
Add: Debtors with Credit Balances	3,948,441	2,179,897
	<b>28,159,026</b>	<b>24,469,237</b>

### 19. Consumer deposits

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>19. Consumer deposits (continued)</b>		
Electricity	2,862,364	2,782,873
<b>20. Property rates</b>		
<b>Rates received</b>		
Residential	21,140,571	21,536,189
Commercial	24,855,174	24,996,053
State	25,876,657	29,704,780
Less: Rates Rebates	(19,621,700)	(26,882,945)
	52,250,702	49,354,077
Property rates - penalties imposed and collection charges	458,803	5,265,387
	<b>52,709,505</b>	<b>54,619,464</b>
<b>Valuations</b>		
Residential	1,059,163,000	1,162,508,000
Commercial	1,627,405,000	1,626,811,000
State	789,181,000	789,181,000
Municipal	119,440,000	119,440,000
	<b>3,595,189,000</b>	<b>3,697,940,000</b>

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2008. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rates for the year under review have been levied as follows:

The new general valuation has been implemented on 01 July 2007.

Category	Randage in Cents/Rand	Rebate%	Exemption
Residential	0.02 cents/rand	41	40,000
Commercial	0.03 cents/rand	30	-
Farms	0.003 cents/rand	25	-
		-	-

## 21. Service charges

Sale of electricity	68,248,156	55,024,761
Refuse removal	10,340,368	9,164,798
Other service charges	5,412,072	15,741,782
	<b>84,000,596</b>	<b>79,931,341</b>



# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>22. Government grants and subsidies</b>		
Equitable share	36,196,084	28,638,574
MSIG Project Consolidate	750,000	714,308
Financial Management Grant	3,795,224	2,102,197
KZN Province	17,207	359,645
Municipal Infrastructure Grant	8,718,865	12,771,550
NER	-	3,447,080
Cemetery	-	673,931
Housing Grant	10,040,868	-
Lottery Funding	996,312	-
DME	1,898,663	-
Sports and Recreation	1,624,317	-
Arts and Culture	633,618	-
	<b>64,671,158</b>	<b>48,707,285</b>
<b>23. General expenses</b>		
Actuarial Loss - Post Employment Benefit	974,412	-
Administration	198,636	471,454
Advertising	565,695	316,564
Auditors remuneration	1,791,729	1,421,684
Bank charges	262,161	342,962
Cleaning	-	155,909
Commission paid	136,095	-
Conferences and seminars	252,858	232,720
Consulting and professional fees	356,042	285,029
Current service Cost	386,656	313,140
Departmental consumption	1,243,057	1,509,192
Entertainment	95,514	101,229
Financial Management Grant	4,493,585	2,558,244
Fuel and oil	1,040,040	1,368,505
Grant expenses	15,861,350	5,032,722
Insurance	1,873,505	1,134,780
Interest cost on Post employment Benefit	808,283	663,300
Lease rentals on operating lease	579,566	2,149,834
Levies	10,181	4,359
Licence fees	112,154	50,527
Loss on Disposal of Assets	14,515	-
Magazines, books and periodicals	1,578,413	1,035,472
Other expenses	15,509,149	31,946,682
Postage and courier	594,137	505,860
Printing and stationery	664,371	587,069
Security (Guarding of municipal property)	2,725,285	2,205,536
Stocks and Materials	1,189,364	1,321,555
Telephone and fax	1,127,428	922,397
Training	1,312,440	945,576
Transport claims	262,230	19,960
Travel - local	1,986,720	1,567,371
Uniforms	429,885	377,877
Valuation costs	140,491	125,200
	<b>58,575,947</b>	<b>59,672,709</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>24. Employee related costs</b>		
Basic	47,739,194	43,749,185
Bonus	832,385	610,087
Medical aid - company contributions	116,634	109,313
UIF	563,169	406,454
Post-employment benefits - Pension - Defined contribution plan	5,839,917	6,506,133
Travel, motor car, accommodation, subsistence and other allowances	3,734,068	2,974,121
Overtime payments	2,393,827	1,469,733
Long-service awards	1,363,993	1,028,798
Housing benefits and allowances	340,691	153,245
	<b>62,923,878</b>	<b>57,007,069</b>
<b>Remuneration of Municipal Manager- Mr MA Nkosi</b>		
Annual Remuneration	814,859	718,114
Car and Cellphone Allowance	138,000	142,290
Performance Bonuses	96,423	-
Contributions to UIF, Medical and Pension Funds	45,000	53,358
	<b>1,094,282</b>	<b>913,762</b>
<b>Remuneration of Chief Finance Officer- Mr L Ndzelu</b>		
Annual Remuneration	443,276	415,498
Car and Cellphone allowance	185,409	199,439
Contributions to UIF, Medical and Pension Funds	81,850	77,560
Housing allowances	39,464	-
Performance Bonus	71,200	-
	<b>821,199</b>	<b>692,497</b>
<b>Remuneration of Corporate Services Manager- Senior Manager- Mr LT Somtseu</b>		
Annual Remuneration	472,719	417,423
Car Allowance	240,984	227,062
Performance Bonuses	75,947	-
Contributions to UIF, Medical and Pension Funds	36,296	48,012
	<b>825,946</b>	<b>692,497</b>
<b>Remuneration of Social Development Manager- Senior Manager- Mr N Msiya</b>		
Annual Remuneration	460,529	316,811
Car Allowance	165,590	154,216
Performance Bonuses	53,454	-
Contributions to UIF, Medical and Pension Funds	79,891	56,240
Housing Allowance	43,988	-
	<b>803,452</b>	<b>527,267</b>
<b>Remuneration of Infrastructure Planning and Development Manager- Senior Manager- Mr AW Velem</b>		
Annual Remuneration	443,276	406,858
Car Allowance	185,977	227,602
Performance Bonuses	71,200	-
Contributions to UIF, Medical and Pension Funds	62,549	58,091
Housing	58,198	-
	<b>821,200</b>	<b>692,551</b>

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>25. Remuneration of councillors</b>		
Mayor	550,197	339,130
Mayor - After May 2011	46,918	-
Deputy Mayor	445,644	283,053
Deputy Mayor - After May 2011	38,088	-
Speaker	445,644	283,053
Speaker - After May 2011	38,088	-
Executive Committee Member	422,561	145,949
Councillors	802,767	732,368
Councillors' pension and medical aid contributions	107,856	344,548
Councillors allowances	300,640	823,561
	<b>3,198,403</b>	<b>2,951,662</b>
<b>In-kind benefits</b>		
The Mayor, Deputy Mayor, Speaker are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
The Mayor has use of a Council owned vehicle for official duties.		
<b>26. Debts written off</b>		
Debt written off	6,506,544	18,393,953
<b>27. Depreciation and amortisation</b>		
Property, plant and equipment	8,789,898	3,865,444
<b>28. Finance costs</b>		
Borrowings	1,247,831	1,417,726
<b>29. Grants and subsidies paid</b>		
<b>Other subsidies</b>		
Grants paid to musuem	-	40,000
<b>30. Bulk purchases</b>		
Electricity	41,944,351	33,586,326
<b>31. Cash generated from operations</b>		
Surplus	23,646,412	11,623,853
<b>Adjustments for:</b>		
Depreciation and amortisation	8,789,898	3,865,444
Gain sale of assets and liabilities	(593,607)	(565,694)
Debt impairment	6,506,544	18,393,953
Movements in retirement benefit assets and liabilities	1,788,197	(3,319,656)
Movements in provisions	(541,022)	1,324,453
Correction of an error (see note 36)	-	3,855,636
Prior year adjustment (see note 35)	-	11,654,438
<b>Changes in working capital:</b>		
Inventories	(130,785)	(70,313)
Trade and other receivables from exchange transactions	(2,753,747)	(21,637,928)

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>31. Cash generated from operations (continued)</b>		
Other receivables from non-exchange transactions	(2,776,722)	(76,916)
Consumer debtors	(1,784,469)	-
Prepayments	266,398	5,119,128
Trade and other payables from exchange transactions	3,689,795	7,745,352
VAT	(2,127,997)	13,535,343
Unspent conditional grants and receipts	(348,406)	(597,154)
Consumer deposits	79,491	445,228
	<b>33,709,980</b>	<b>51,295,167</b>

### 32. Commitments

#### Authorised capital expenditure

##### Approved and Contracted for

• Infrastructure	12,842,141	15,795,492
• community	17,541,920	-
	<b>30,384,061</b>	<b>15,795,492</b>

##### Approved but not yet contracted for

• Infrastructure	14,971,279	8,720,000
• Community	31,193,741	-
	<b>46,165,020</b>	<b>8,720,000</b>

The expenditure will be financed from Government grants and own resources.

#### Operating leases - as lessee (expense)

##### Minimum lease payments due

- within one year	588,305	585,703
- in second to fifth year inclusive	436,160	364,372
	<b>1,024,465</b>	<b>950,075</b>

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

### 33. Risk management

#### Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for members and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

#### Financial risk management

The Directorate: Financial services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by internal auditors on a continuous basis, and by external auditors annually. The entity does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports quarterly to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

#### Significant Accounting Policies

Details of the significant Accounting Policies and methods adopted, including the criteria for recognition, the basis of

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
-----------------	------	------

### 33. Risk management (continued)

measurement and the basis on which income and expenses are recognised, in respect of each class of Financial Asset, Financial Liability and Equity Instrument are disclosed in the Accounting Policies to the Annual Financial Statement

#### Market Risk

The municipality's activities expose it primarily to the financial risks of changes in interest rates. No formal policy exists to hedge volatilities in the interest rate market.

#### Interest Rate Risk Management

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term debtors, consumer debtors, other debtors, and bank and cash balances. The municipality is exposed to interest rate risk as the municipality borrows funds at both fixed and floating interest rates

#### Interest Rate Sensitivity Analysis

The sensitivity analysis below was determined based on the exposure to interest rates at the reporting date. For variable rate long-term instruments, the analysis is prepared assuming the amount of the instrument outstanding at the reporting date was outstanding for the whole year. A 100 basis point increase or decrease was used, which represents management's assessment of the reasonably possible change in interest rates.

The municipality's sensitivity to interest rates has decreased during the current period mainly due to the reduction in the balance of the variable rate debt instrument.

#### Liquidity Risk Management

Ultimate responsibility for liquidity risk management rests with the Council. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 33 is a listing of additional undrawn facilities that the municipality has at its disposal to further reduce liquidity risk (cash). The municipality expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets. The municipality expects to maintain current debt to equity ratio. This will be achieved through increasing tariffs and the increased use of unsecured bank loan facilities.

#### Credit Risk Management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

### 34. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### 35. Events after the reporting date

There have been no facts or circumstances of a material nature that have occurred between the balance sheet date and the date of this report that require adjustment to or disclosure in the annual financial statements.

### 36. Fruitless and wasteful expenditure

Late submission of tax returns	-	33,804
June 2007 - Penalties and interest SARS	5,279	-
June 2008 - Penalties and interest SARS	11,967	-

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>36. Fruitless and wasteful expenditure (continued)</b>		
June 2009 - Penalties and interest SARS	182,304	-
June 2010 - Penalties and interest SARS	3,354	-
Leave payouts and salary	-	9,910
Laptop	-	7,087
	<b>202,904</b>	<b>50,801</b>

Kindly note that interest and penalties in respect of 2007, 2008, and June 2010 is due to incorrect claims made in respect of motor vehicles leased. .

Interest and penalty relating to June 2009 is only in respect of invoices from IDT which was claimed incorrectly in respect of supply of money , not goods and services, and therefore was disallowed by SARS.

However an objection was lodged with SARS , as the amount claimed was claimable but the claim was incorrectly done using IDT invoices. Thus awaiting response from SARS.

SARS waived R 37 562.29 in interest and penalties thus reducing interest and penalties owed to SARS.

### 37. Irregular expenditure

Opening balance	478,163	-
Add: Irregular Expenditure - current year	2,719,490	478,163
Less: Amounts condoned	(478,163)	-
	-	-
	-	-
	<b>2,719,490</b>	<b>478,163</b>

### 38. Prior period errors

In 2011 the corrected infrastructure assets which were previously not recognised. The correction has been accounted for retrospectively. The effect of the correction is a increase in accumulated surplus and increase value of infrastructure assets.

In 2011 the municipality corrected an error relating to Community Assets extra processing of depreciation. Thus increased accumulated surplus and decreased accumulated depreciation on Community Assets, correction was stated retrospectively

In 2011 the municipality corrected an incorrect recognition of heritage asset and land & buildings. Heritage asset was incorrectly classified as land & buildings. There was a correction for depreciation which was incorrectly accounted for. Land & buildings was transferred to the department of health, the accumulated depreciation which was incorrectly accounted for was subsequently reversed.

In 2011 the municipality corrected an overstatement of depreciation in prior years. The correction of error has been accounted for retrospectively. The effect of the correction is an increase in Accumulated Surplus and a decrease in Accumulated Depreciation.

In 2011 the municipality corrected the incorrect expensing of roads that have been capitalised, this resulted understatement of profits and understatement of depreciation in prior years. The correction of error has been accounted for retrospectively. The effect of the correction is increase in roads, increase in Accumulated Depreciation and increase in Accumulated Surplus.

In 2011 the municipality corrected an error relating to leave pay provision which had occurred in 2010 ,retrospective treatment was taken increasing accumulated surplus.

Debtors who's account has credit balance, are treated as creditors, as result trade debtors are reduced by R 2 179 879 And trade creditors are increased by the same amount, prior year has been restated accordingly.

The correction of error(s) results in adjustments as follows:

#### Effect on Accumulated Surplus (Increase)/Decrease

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
<b>38. Prior period errors (continued)</b>		
Reversal of Community assets	(17,641,182)	-
Reversal of Heritage Asset depreciation	(1,195,000)	-
Correction of over depreciation of assets in prior year	(38,900,470)	-
Restatement of incorrect cost prior year Land and Buildings	266,118	-
Correction of error in respect assets disposed in prior year	4,967,000	-
Infrastruture (Roads) not recognised previously	(40,750,001)	-
Reversal of Depreciation incorrectly charged in previous year	(8,782,161)	-
Correction of leave pay provision	(4,529,720)	-
	<b>(106,565,417)</b>	<b>-</b>
<b>39. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Current year subscription / fee	309,463	191,672
Amount paid - current year	(309,463)	(191,672)
	-	-
<b>Audit fees</b>		
Current year subscription / fee	1,791,729	1,421,684
Amount paid - current year	(1,791,729)	(1,421,684)
	-	-
<b>PAYE and UIF</b>		
Current year subscription / fee	8,384,004	5,457,987
Amount paid - current year	(8,384,004)	(5,457,987)
	-	-
<b>Pension and Medical Aid Deductions</b>		
Current year subscription / fee	13,070,941	11,812,165
Amount paid - current year	(13,070,941)	(11,812,165)
	-	-

# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
-----------------	------	------

### 39. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2011:

Kindly note councillor P Nocanda and N Mavuka have made arrangements for settlement with the Municipality.

30 June 2011	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor ZA Mhlongo	-	14,988	14,988
Councillor P Nocanda	-	3,305	3,305
Councillor N Mavuka	-	10,868	10,868
	-	29,161	29,161

30 June 2010	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor N Mavuka	834	8,945	9,779
Councillor T N Jojozi	719	2,570	3,289
Councillor J J Mhlongo	686	3,489	4,175
Councillor M White	1,991	1,397	3,388
Councillor F Rodgers	7,565	-	7,565
	11,795	16,401	28,196

30 June 2010	Highest outstanding amount	Aging (in days)
Councillor N Mavuka	9,779	90
Councillor T N Jojozi	3,289	90
Councillor J J Mhlongo	4,175	90
Councillor M White	3,388	90
	20,631	360

### 40. SCM Deviations

Description		
Sole Suppliers	1,252,724	-
Emergencies	404,659	-
One quote	1,885,574	-
Two Quotes	659,011	-
	4,201,968	-

Kindly note deviations above have been reported to the Council and the Council resolved to accept and approve them.

### 41. Electricity losses

The municipality has identified electricity losses in units 3 382 274.93, with an estimated value of R 1,657,314.72. The units disclosed as losses refer to the street lights, Robots consumption and is estimated to 3 000 000 KWh as per Electrical department advise

### 42. Contingent Liabilities/Contingent Assets

There are no contingent liabilities/ contingent Assets for the year.



# Greater Kokstad Local Municipality

Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand	2011	2010
-----------------	------	------

### 43. Related Parties

None applicable in the financial year under review.

### 44. Donations Received

Transnet has donated all their assets at Franklin Town amounting to a of sum of R 2 000 000 for waste removal upgrade.